

Joseph O Sanusi: Ongoing efforts towards a monetary union in the West African sub-region

Speech by Dr Joseph O Sanusi, Governor of the Central Bank of Nigeria, at the MEFMI Central Bank Governors Forum, Bank for International Settlements, Basel, 30 June - 1 July 2003.

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Fellow Governors,
Members of the Diplomatic Corp,
Distinguished Delegates,
Ladies and Gentlemen,

Introduction

I am pleased to be given the privilege to brief Governors about on-going efforts to move towards a monetary union (establishment of a single Central Bank and introduction of single currency) in the West African sub-region. I thank the organisers and the Bank for International Settlements (BIS) for hosting the Forum.

In recent years, especially following the emergence of the Euro as the single currency of the European Union, there has been a renewed and growing interest globally in fostering economic and monetary integration as a means of facilitating economic growth and development of the integrating entity. The benefits of a monetary union are expected to include:

- enhancement of the payments system for goods and services in the sub-region, thereby promoting trade;
- creation of a larger regional market and widening of business/trade-related income-earning opportunities for the citizenry for improvement of their standard of living;
- facilitation of unhindered movements of persons and labour in the sub-region through dismantling of barriers, thereby strengthening cultural, economic, social and political cooperation (common central bank, judiciary, parliament, etc);
- creation of a more favourable environment for collective pooling of resources for development of essential regional infrastructure;
- enhancement of economic competitiveness, derivation of economies of scale, and reduction in transactions costs.

In order to hasten the realisation of afore-mentioned economic, political and social benefits, the Authority of Heads of State and Government of the West African sub-region agreed to the establishment of the Economic Community of West African States (ECOWAS) comprising 15 countries in 1975. ECOWAS, in 1987, adopted ECOWAS Monetary Cooperation Programme (EMCP) with the specific objectives of improving and strengthening sub-regional payments systems under the West African Clearing House (now West African Monetary Agency - WAMA); introducing limited currency convertibility; establishing a single monetary zone, and eventually a common central bank and a single currency by the year 2000. The EMCP contained a set of macroeconomic convergence criteria which member countries were expected to observe prior to the emergence of the monetary union.

By 1999 however, it was generally observed that the pace of implementation of the EMCP, especially the establishment of the single monetary zone, had not matched the expectations of the founding fathers. Some perceived major obstacles to successful implementation of the programme included: lack of political will and commitment; non-uniformity in the adoption of required macroeconomic framework and lack of policy coordination and harmonization between the Francophone West African countries, with the exception of the Republic of Guinea, which established an economic and monetary Union (Union Economique et Monetaire Ouest Africaine - UEMOA in 1994) and the Anglophone countries.

The recognition of this problem necessitated the Authority of Heads of State and Government of ECOWAS, at its 22nd Summit in Lome, Togo, in December 1999 to adopt a strategy of a Two-Track Fast-Track approach, to the implementation of the EMCP.

Following the initiative of Nigeria and Ghana, consultations were held with the Governments of The Gambia, Guinea, Liberia, and Sierra Leone, and at a Summit of the Heads of State of the six countries, in Accra, Ghana, in April 2000, the Accra Declaration on the creation of the Second Monetary Zone was signed. The Authorities of these countries committed themselves to the introduction of a single currency and the establishment of a common central bank by the year 2003 for eventual merger with the UEMOA zone by the year 2004 under the aegis of the ECOWAS integration programme.

At the second Summit in Bamako, Mali in December, 2000, the Authorities formally launched and established the Second Monetary Zone as the **West African Monetary Zone (WAMZ)** and approved a set of convergence criteria to be attained by member states before the commencement of the monetary union. The West African Monetary Institute (WAMI) was also established to undertake all the preparatory work for the introduction of the single currency, and a common central bank in the WAMZ. WAMI was also to study and make proposals on how to address issues of monetary policy, financial sector surveillance, currency and external reserves management as well as legal framework and institutional arrangement associated with eventual establishment of the West African Central Bank.

The West African Monetary Zone (WAMZ)

Institutions of the WAMZ

Six institutions, including WAMI, have been created under the WAMZ Agreement to facilitate arrangements for eventual introduction of the single currency and establishment of a common central bank in the zone. These are:

- (i) the Authority of Heads of States and Government - this is the political and supreme body of the zone, with the overall responsibility for the achievement of the objectives of the WAMZ;
- (ii) the Convergence Council of Ministers and Central Bank Governors - the supervisory authority of the WAMZ and its institutions;
- (iii) the Technical Committee which works in collaboration with WAMI, to facilitate the integration process;
- (iv) the West African Central Bank (WACB), when established, would be the common Central Bank of the zone, while the existing National Central Banks will be national branches of the WACB; and
- (v) WAMZ Stabilization and Cooperation Fund (SCF) to provide financial assistance to member states that may experience temporary disequilibria in their balance of payments.

Convergence criteria under the WAMZ

The convergence criteria for the West African Monetary Zone focus on achieving inflation rate of 5 per cent by 2003; fiscal deficit GDP ratio of 4 per cent by 2002; limiting of deficit financing by the central bank to 10 percent and maintaining sufficient level of gross official foreign exchange reserves of at least 6 months of imports by 2003. The Agreement establishing the zone stipulates that the convergence criteria be achieved and sustained within a given time frame. However, there have been slippages and inconsistencies in the performances of member countries regarding attainment of the stipulated targets. While some countries of the zone were negatively affected by civil conflicts, the situation was compounded by severe terms to trade experienced by many countries in the last few years. A major militating factor was expansionary fiscal policies which tended to weaken relatively tight monetary policies pursued by the sub-region's central banks. The poor state of infrastructure was also uncondusive to investments and economic growth. The poor country performances relative to the stipulated targets necessitated the extension of the period for meeting the convergence criteria, before the establishment of the common Central Bank, from January 2003 to June 2005.

Progress/prospects of actualizing the single currency objective of the WAMZ

The Authorities of the WAMZ have programmed several actions to be taken to strengthen macroeconomic convergence and stability. The WAMI, in collaboration with Experts from member countries and the Technical Committee, has been taking concrete steps and providing some viable

solutions to various technical issues involved in the arrangement. A Forum for Ministers of Finance of member countries of the Zone was established in 2002 to be discussing how best to address the problem of fiscal dominance in a co-ordinated manner that would reduce fiscal deficits and recourse to central bank financing of such deficits and facilitate achievement of macroeconomic convergence. In this connection,

- (i) member countries are urged to vigorously implement a medium term budget framework which captures a steady improvement in revenue mobilization and expenditure control. Such a framework, which would be consistent with a balanced budget, should ensure that expenditures are synchronised with revenues.
- (ii) Macroeconomic Coordinating Committees have been set up both at national and zonal levels to ensure macroeconomic surveillance of member states.
- (iii) Committees of Experts have started to harmonise the payments systems as well as the legal frameworks of member countries to strengthen the monetary and other financial policies as well as the banking rules and regulations of the zone. An external supervisory agency for banking supervision in the zone, the West African Financial Supervisory Authority (WAFSA), would be established as well as a deposit insurance scheme.
- (iv) technical issues relating to the currency operations in the zone are being worked out by WAMI, in collaboration with Technical Experts from member central banks.
- (v) an Exchange Rate Mechanism (ERM) has been put in place since April 2002 to enhance macroeconomic convergence.
- (vi) a decision has been taken to adopt a market-based monetary management strategy under the unified monetary and exchange rate policy regime in the sub-region.
- (vii) agreement has been reached that the primary goal of the common central bank, the WACB, would be maintenance of price stability. This would be accompanied through a phased movement towards inflation targeting.

Final phase of monetary integration in ECOWAS sub-region

The ultimate phase of ECOWAS sub-regional monetary integration efforts would be a merger of the WAMZ arrangement with the UEMOA which already has a common central bank, the BCEAO.

In addition to efforts at monetary integration in West Africa, the African Union is supportive of other similar efforts elsewhere in the continent to evolve a single currency and an African Central Bank.

It would be recalled that in accordance with Articles 6 (2) f(iii) and 44 of the Abuja Treaty, the Association of African Central Bank (AACB) Governors recognised that achievement of the objectives of harmonisation of monetary, financial and payments systems policies and boosting intra-community trade would be predicated on, among others, the strengthening of the sub-regional integration efforts and enhancing monetary cooperation among member states for the eventual evolution of a monetary union in Africa. In fact, the AACB envisages that monetary cooperation, which would bring about macroeconomic convergence at sub-regional levels would serve as building blocks for the future African Central Bank. Toward realisation of this goal, the AACB has developed an African Monetary Cooperation Programme (AMCP) with stipulated convergence criteria, for implementation in the continent.

The AMCP is sub-divided into six stages, beginning from the year 2002 to 2021, during which period all preparatory processes for introduction of a single African currency and African Central Bank would have been completed.

I thank you for your attention.